

# **VIRGINIA TOURISM AUTHORITY**



**Doing Business As**

**VIRGINIA TOURISM CORPORATION**

***Annual Financial Statements***

**For the Year Ended June 30, 2005**

*Virginia is for Lovers* 



## **AUDIT SUMMARY**

Our audit of the Virginia Tourism Authority for the year ended June 30, 2005, found:

- the financial statements are presented fairly in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- an instance of noncompliance to be reported that is fully described in the section of the report entitled “Compliance Finding and Recommendation.”



- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	2- 5
FINANCIAL STATEMENTS:	
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet – Governmental Funds	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	11
Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – Cash Basis – General Fund	12
Notes to Financial Statements	14-19
INDEPENDENT AUDITOR’S REPORTS:	
Report on Financial Statements	20-21
Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters	21
AGENCY RESPONSE	22
BOARD MEMBERS	23



## INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

### Clarify Responsibilities and Duties of the Board and the Executive Director

The Virginia Tourism Authority Board operates as an advisory board; however, many of the duties and responsibilities assigned by the Code of Virginia to the Board would indicate that they are a supervisory board and should provide direct oversight to the Authority's operations.

Section 2.2-2316 of the Code of Virginia states, "All powers, rights and duties conferred by this article or other provisions of law upon the Authority shall be exercised by a board of directors" Section 2.2-2100 of the Code of Virginia has the following definitions of both supervisory and advisory boards:

Supervisory: a board, commission, or council shall be classified as supervisory if it is responsible for agency operations including approval of requests for appropriations. A supervisory board, commission, or council appoints the agency director and ensures that the agency director complies with all board and statutory directives. The agency director is subordinate to the board. Notwithstanding the foregoing, the Board of Education shall be considered a supervisory board.

Advisory: a board, commission, or council shall be classified as advisory when its purpose is to provide advice and comment to an executive branch agency or office. An advisory board, commission, or council serves as a formal liaison between the agency or office and the public to ensure that the agency or office understands public concerns and that the activities of the agency or office are communicated to the public. An advisory board, commission, or council does not serve a regulatory or rule-making purpose. It may participate in the development of public policy by providing comment and advice.

Although the Code of Virginia specifies that the Governor will appoint the Executive Director, Section 2.2-2317 states that, "the Executive Director shall administer, manage, and direct the affairs and activities of the Authority in accordance with the policies and under the control and direction of the Board."

The Code of Virginia does not specifically classify the Board as either advisory, policy, or supervisory, however, given the powers as quoted above, the Board can be held responsible for the Authority's operations, adoption of policies, and exceptions to policies. In order to address the risk that the Board is not fulfilling their statutory requirements, we recommend that the Board either operate as a supervisory board, overseeing financial and daily operational responsibilities; or clarify its responsibility by obtaining a legal opinion as to the responsibilities of the Board from the Attorney General's office or pursuing a statutory change in the Board's duties and responsibilities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The discussion and analysis for the Virginia Tourism Authority's (Authority) financial performance provides an overview of its financial activities for the year ended June 30, 2005. We believe the information presented is accurate in all material aspects and that all necessary disclosures to enable the reader to obtain an understanding of the Authority's financial activities have been included.

### **Governmental and Organization Structure**

The Virginia General Assembly created the Authority in 1999 for the promotion of tourism and film production in the Commonwealth of Virginia (Commonwealth) necessary to increase the prosperity of its citizens. It is a public body corporate and political subdivision of the Commonwealth authorized to do business as the Virginia Tourism Corporation.

A 15-member board of directors provides policy guidance to the management of the Authority. The Governor appoints 12 members, the Chairman of the Board of Directors and the Executive Director, who reports through the Secretary of Commerce and Trade. The Secretary of Commerce and Trade, Secretary of Finance, and Secretary of Natural Resources also serve on the board.

The Authority is located in Richmond, Virginia. In addition, the Authority manages ten state welcome centers located strategically around the state and the Capitol Bell Tower in Richmond to provide information to persons traveling to and through Virginia.

The Authority has four organizational divisions of management: Administration and Finance; Marketing and Promotions; Customer Service and Industry Relations; and the Virginia Film Office. Responsibility for each of these areas is vested with managing vice-presidents to oversee Authority activities.

### **Overview of the Financial Statements**

#### Government-Wide Financial Statements

The government-wide financial statements provide the reader with an overview of the Authority in a manner similar to private sector business.

The Statement of Net Assets presents information about the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the Authority's financial position is improving or declining.

The Statement of Activities presents how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that would result in cash flows in past or future fiscal years. Some examples are accrued interest earned, but not yet collected (revenue); earned, but unused employee vacation leave (expense); and advance collections for advertising and program fees (revenue).



## Fund Financial Statements

The financial activities of the Authority are reported within governmental funds. A fund is a set of related accounts used to report resources segregated for specific activities or objectives. The Authority, like other political subdivisions of the Commonwealth, uses fund accounting to ensure and demonstrate compliance with financial and legal requirements.

The governmental funds report on essentially the same functions reported as governmental activities within the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of appropriated and earned resources and balances available at the end of the prior fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

## Reconciliations between Government-wide and Fund Financial Statements

Two reconciliations clarify the differences between the government-wide financial statements and the fund financial statements. The first, found on the Balance Sheet, explains the difference between the total fund balance on the Balance Sheet and total net assets as shown on the Statement of Net Assets. The second, found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, identifies the differences between the net change in fund balances on the fund-based statement and the change in net assets on the government-wide based statement.

### **Government-Wide Financial Analysis**

Net Assets may serve, over time, as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by \$2,080,255 at the close of the fiscal year ended June 30, 2005 as shown below. Total assets increased by \$955,581 over the prior year primarily in cash and advance deposits for advertising and marketing efforts for late summer and fall campaigns. Total liabilities increased by \$128,869 largely due to increases in accrued long-term pension liability, accounts payable, and deferred revenues as of June 30.

	<u>Net Assets</u>		
	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>	<u>Variance</u>
Assets:			
Current and other assets	\$3,127,144	\$2,186,704	\$940,440
Capital assets	<u>141,042</u>	<u>125,901</u>	<u>15,141</u>
Total assets	<u>3,268,186</u>	<u>2,312,605</u>	<u>955,581</u>
Liabilities:			
Other liabilities	467,898	362,532	105,366
Long-term liabilities	<u>720,033</u>	<u>696,530</u>	<u>23,503</u>
Total liabilities	<u>1,187,931</u>	<u>1,059,062</u>	<u>128,869</u>
Net Assets:			
Invested in capital assets, net of related debt	130,466	97,024	33,442
Unrestricted	<u>1,949,789</u>	<u>1,156,519</u>	<u>793,270</u>
Total net assets	<u>\$2,080,255</u>	<u>\$1,253,543</u>	<u>\$826,712</u>



The Net assets of the Authority increased by \$826,712 during the fiscal year, the increase is primarily attributable to collected revenues exceeding expectations by \$1,113,808. The Authority received a payment from the Department of Motor Vehicles for its share of license plate sales to fund marketing of Jamestown 2007 activities. Legislation providing the Jamestown funds was enacted by the General Assembly in the 2005 session.

#### Changes in Net Assets

	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Year</u> <u>2004</u>	<u>Variance</u>
Revenues:			
Charges for services	\$ 552,457	\$ 643,956	\$ (91,499)
Operating grants and contributions	2,092,277	1,000,000	1,092,277
General fund appropriations	11,565,904	10,442,591	1,123,313
Other	<u>69,020</u>	<u>34,621</u>	<u>34,399</u>
Total revenues	<u>14,279,658</u>	<u>12,121,168</u>	<u>2,158,490</u>
Expenses:			
Administration and finance	1,146,697	1,523,548	(376,851)
Marketing and promotion	8,256,397	6,461,948	1,794,449
Customer service and industry relations	2,762,218	2,491,484	270,734
Virginia Film Office	837,634	756,859	80,775
Pass-through payments	<u>450,000</u>	<u>593,500</u>	<u>(143,500)</u>
Total expenses	<u>13,452,946</u>	<u>11,827,339</u>	<u>1,625,607</u>
Increase in net assets	826,712	293,829	532,883
Net Assets, beginning of year	<u>1,253,543</u>	<u>959,714</u>	<u>293,829</u>
Net Assets, end of year	<u>\$ 2,080,255</u>	<u>\$ 1,253,543</u>	<u>\$ 826,712</u>

#### General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget, and Actual-Cash Basis provides information on the Authority's original budget and the final budget on which it operated during the fiscal year. The final budgeted revenues and expenditures are compared to cash-basis actual results by revenue source and major program activity. The budgeted amounts represent the agency's anticipated revenue sources and expenditure plan developed at the beginning of the fiscal year and modified during the year.

#### **Revenues**

As a political subdivision of the Commonwealth, the Authority's primary source of funding is from the general fund of the Commonwealth appropriated by the General Assembly. The General Fund appropriation reported for the year increased from the prior year by \$1,123,313. Cash carryover funds of \$992,300 were used to fund primarily non-recurring program costs.

The Virginia Department of Transportation transfers funds (\$1 million) annually to support the operations of the state's ten welcome centers managed by the Authority. Fees are also collected from Virginia attractions and destinations that place promotional brochures and display advertising within these centers. The brochure and display advertising program exceeded revenue expectations by approximately 24 percent. Other revenue sources include trade-show participation fees, interest on deposits, and



miscellaneous sales and reimbursements. The General Assembly in the 2005 session appropriated a portion of the sales of license plate revenues (approximately \$1 million each year of the biennium) for the Authority to market Jamestown 2007. The first installment to be used for fiscal year 2006 marketing was received at the end of fiscal year 2005.

### **Expenditures**

The Authority's expenditure plan was modified to reflect increases in appropriated funds from fiscal year 2004 levels. \$1 million of the appropriation increase was designated for marketing and promotion of the Jamestown 2007 Commemoration. The Authority expects that funding for base services will remain relatively constant in the foreseeable future. It is anticipated that additional funding may be provided in the next biennium to market the Jamestown 2007 Commemoration.

### **Notes to Financial Statements**

The Notes to the Financial Statements provide additional information essential to gain a complete understanding of the financial information presented in the government-wide and fund financial statements. They describe the nature of the Authority's reporting entity and the relationship to the Commonwealth as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. The notes also provide explanations of accounts with significant balances.

### **Request for Information**

The financial report provides an overview of the Virginia Tourism Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President, Virginia Tourism Corporation, 901 East Byrd Street, Richmond, Virginia 23218.



## **FINANCIAL STATEMENTS**



VIRGINIA TOURISM AUTHORITY  
STATEMENT OF NET ASSETS  
As of June 30, 2005

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents (Note 2)	\$ 1,571,630
Other receivables	270
Petty cash and travel advances	1,700
Prepaid expenses	1,553,544
Capital assets, net of accumulated depreciation (Notes 1-C and 5)	141,042
Total assets	3,268,186
<b>LIABILITIES</b>	
Accounts payable	166,824
Accrued payroll	80,573
Unearned revenue (Note 1-D)	220,501
Noncurrent liabilities:	
Compensated absences (Note 1-E and 8)	
Due within one year	213,005
Due in more than one year	142,248
Installment purchases payable (Note 7)	
Due within one year	847
Due in more than one year	9,729
Pension liability due in more than one year (Note 9)	354,204
Total liabilities	1,187,931
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	130,466
Unrestricted	1,949,789
Total net assets	\$ 2,080,255

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2005

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets
Governmental activities:				
Administration and finance	\$ 1,146,697	\$ 18,651	\$ 17,065	\$ (1,110,981)
Marketing and promotion	8,256,397	123,912	1,075,212	(7,057,273)
Customer service and industry relations	2,762,218	408,894	1,000,000	(1,353,324)
Virginia Film Office	837,634	1,000		(836,634)
Pass-through payments	450,000			(450,000)
Total governmental activities	\$ 13,452,946	\$ 552,457	\$ 2,092,277	(10,808,212)
General revenues:				
Revenue provided by the General Fund of the Commonwealth (Note 4)				11,565,904
Interest revenue				69,020
Total general revenues				11,634,924
Change in net assets				826,712
Net assets July 1, 2004				1,253,543
Net assets June 30, 2005				\$ 2,080,255

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
As of June 30, 2005

	<u>General Fund</u>
Assets:	
Cash and cash equivalents (Note 2)	\$ 1,571,630
Other receivables	270
Petty cash and travel advances	1,700
Prepaid expenses	<u>1,553,544</u>
Total assets	<u>3,127,144</u>
Liabilities and fund balances	
Liabilities:	
Accounts payable	166,824
Accrued payroll	80,573
Unearned revenue (Note 1-D)	<u>220,501</u>
Total liabilities	<u>467,898</u>
Fund balances:	
Unreserved	<u>2,659,246</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in general fund activities are not financial resources and, therefore, are not reported in the general fund.	141,042
Noncurrent liabilities including compensated absences, installment purchases payable and pension liability, are not due in the current period and therefore are not reported in the general fund.	<u>(720,033)</u>
Net assets of governmental activities	<u><u>\$ 2,080,255</u></u>

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2005

	<u>General Fund</u>
Revenues:	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 11,565,904
Revenue provided by the Virginia Department of Transportation	1,000,000
Revenue provided by the Virginia Department of Motor Vehicles	1,000,000
Participation fees	130,438
Welcome center advertising fees	393,761
Interest revenue	69,020
Other revenue	<u>120,535</u>
Total revenues	<u>14,279,658</u>
Expenditures:	
Administration and finance	1,185,529
Marketing and promotion	8,226,142
Customer service and industry relations	2,753,826
Virginia Film Office	829,087
Pass-through payments	<u>450,000</u>
Total expenditures	<u>13,444,584</u>
Net increase in fund balance	835,074
Fund balance, July 1, 2004	<u>1,824,172</u>
Fund balance, June 30, 2005	<u><u>\$ 2,659,246</u></u>

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2005

---

Amounts reported for governmental activities in the Statement of Activities are different because:

Net increase in fund balances - total governmental fund	\$ 835,074
---	------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	15,141
--	--------

The issuance of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	18,301
--	--------

Some expenses reported in the Statement of Activities (increases in net pension obligation and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(41,804)
--	----------

Change in net assets of governmental activities	<u>\$ 826,712</u>
---	-------------------

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CASH BASIS - GENERAL FUND  
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Revenue provided by the General Fund of the Commonwealth - (Note 4)	\$ 11,744,914	\$ 11,565,904	\$ 11,565,904	\$ -
Revenue provided by the Virginia Department of Transportation	1,000,000	1,000,000	1,000,000	-
Revenue provided by the Virginia Department of Motor Vehicles	-	-	1,000,000	1,000,000
Participation fees	167,500	182,500	130,438	(52,062)
Welcome center advertising fees	294,000	364,178	453,513	89,335
Interest revenue	30,000	30,000	69,020	39,020
Other revenue	89,054	83,054	120,569	37,515
Total revenues	13,325,468	13,225,636	14,339,444	1,113,808
Expenditures:				
Administration and finance	810,021	1,374,061	1,256,474	117,587
Marketing and promotion	8,576,965	8,690,044	8,661,515	28,529
Customer service and industry relations	2,732,401	2,858,309	2,695,632	162,677
Virginia Film Office	708,081	845,522	845,024	498
Pass-through payments	700,000	450,000	450,000	-
Total expenditures	13,527,468	14,217,936	13,908,645	309,291
			-	
Revenues over (under) expenditures	\$ (202,000)	\$ (992,300)	430,799	1,423,099
Fund balance, July 1, 2004			1,142,530	1,142,530
Fund balance, June 30, 2005			\$ 1,573,329	\$ 2,565,629

The accompanying notes are an integral part of the financial statements.



## **NOTES TO FINANCIAL STATEMENTS**



VIRGINIA TOURISM AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Authority was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the Code of Virginia (Sections 2.2-2315 through 2.2-2326). The Authority is authorized to do business as the "Virginia Tourism Corporation" in accordance with Section 2.2-2315. The Authority's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

The Authority is a component unit of the Commonwealth. A separate report is prepared by the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. Accordingly, the financial statements of the Authority are included in the financial statements of the Commonwealth as a discretely presented component unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include 1) charges for services consisting of participation fees and brochure rental fees; and 2) a transfer from Department of Transportation for support of welcome centers.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Authority reports its activities in governmental funds. The General Fund is used for its primary operating fund and accounts for all the Authority's financial resources.



C. Capital Assets

Capital assets are defined by the Authority as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of three to ten years.

D. Unearned Revenue

Unearned revenue is comprised of advertising display fees that were received at June 30, 2005, but were not yet earned.

E. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Authority's employees, but not taken at June 30, 2005. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, Accounting for Compensated Absences. This statement requires the accrual of Social Security and Medicare taxes to be paid by the Authority on all accrued compensated absences.

F. Budgets and Budgetary Accounting

The Authority's budget was established primarily by the 2004 Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2005, which is the first year of the biennium budget ending June 30, 2006. No payments were made to the Authority out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Authority bank accounts in accordance with the Code of Virginia, Section 2.2-2322 and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. The LGIP funds are held in pooled accounts, are considered cash equivalents, and, accordingly carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. VTA deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.



3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>General Fund</u>
Fund balance, cash basis, June 30, 2005	\$1,573,329
Add: Prepaid expenses and other receivables	1,553,815
Deduct: Accrued expenses and unearned revenues	<u>(467,898)</u>
Fund balance, GAAP basis, June 30, 2005	<u>\$2,659,246</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation as allotted	\$11,744,914
Supplemental appropriation actions:	
Add: Central Appropriations adjustments	70,990
Deduct: Transfer of Virginia Motor sports funding to the VEDP	<u>(250,000)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$11,565,904</u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Leasehold improvements, furniture and equipment	\$341,424	\$57,047	\$ -	\$398,471
Less: accumulated depreciation	<u>215,523</u>	<u>41,906</u>	<u>-</u>	<u>257,429</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$125,901</u>	<u>\$15,141</u>	<u>\$ -</u>	<u>\$141,042</u>



6. OPERATING LEASE COMMITMENTS

The Authority is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to \$58,752 for the year. A summary of minimum future obligations under these lease agreements as of June 30, 2005 follows:

<u>Year Ending</u> <u>June, 30</u>	<u>Operating Lease</u> <u>Obligations</u>
2006	\$56,319
2007	4,818
2008	<u>-</u>
Total future minimum rental payments	<u>\$61,137</u>

7. INSTALLMENT PURCHASES OBLIGATIONS

The Authority has various installment purchase contracts to finance the acquisition of office equipment. The terms of the contracts range from two to five years with ending dates from November 2005 through August 2007. Interest rates are from 4.196 to 10.31 percent. Installment purchases obligations activity for the fiscal year ended June 30, 2005, was as follows:

<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>\$28,877</u>	<u>\$ -</u>	<u>\$18,301</u>	<u>\$10,576</u>

Principal and interest payments for fiscal years subsequent to June 30, 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 9,729	\$232	\$ 9,961
2007	<u>847</u>	<u>4</u>	<u>851</u>
Totals	<u>\$10,576</u>	<u>\$236</u>	<u>\$10,812</u>

8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2005, was as follows:

<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>\$351,990</u>	<u>\$222,975</u>	<u>\$219,712</u>	<u>\$ 355,253</u>
Due within one year			<u>(213,005)</u>
Due in more than one year			<u>\$ 142,248</u>



## 9. PENSION PLAN AND OTHER RETIREMENT BENEFITS

The Authority is a participating employer in a defined benefit plan administered by the Virginia Retirement System (VRS). As of June 30, 2005, the Authority's net pension obligation was \$354,204.

### Plan Description

All full-time and part-time salaried employees of the Authority participate in the defined benefit retirement plan administered by the VRS. The VRS is an agent and cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report may be obtained by writing to the Virginia Retirement System at P.O. Box 2500, Richmond, Virginia 23218-2500.

### Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5.0 percent member contribution. The Authority does pay the member contribution, which amounted to \$139,552 (5.0 percent of total creditable compensation of \$2,791,048). In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2005, was 3.91 percent resulting in contributions of \$109,130 by the Authority for the fiscal year ended June 30, 2005.



## 10. RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority is insured for these risks through commercial insurance policies. Further, the Authority is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Federal Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$1,000 deductible.

The Authority participates in the state health care insurance plan maintained by the Commonwealth, which is administered by the Department of Human Resource Management (DHRM). The Authority pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

December 9, 2005

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
And Review Commission

Board of Directors  
Virginia Tourism Authority

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of **Virginia Tourism Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund, a major fund, of the Virginia Tourism Authority as of June 30, 2005, and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



The Management's Discussion and Analysis on pages 4 through 7 are not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Clarify Responsibilities and Duties of the Board and the Executive Director" is described in the section titled "Compliance Finding and Recommendation."

The "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 12, 2006.

AUDITOR OF PUBLIC ACCOUNTS

KSA:sks  
sks:39



January 17, 2006

**Virginia Tourism Corporation**  
901 East Byrd Street  
Richmond, VA 23219-4048 USA

**TEL** (804) 786-2051  
**FAX** (804) 786-1919  
[www.virginia.org](http://www.virginia.org) (consumer)  
[www.vatc.org](http://www.vatc.org) (industry)

The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Sir:

The Authority has reviewed the Management Letter Comment regarding the clarification of responsibilities and duties of the Board and the Executive Director. When the legislation was created in 1999 establishing the Authority as an autonomous entity, it was done with the intention of providing gubernatorial control over its policy and administrative direction. As a result, the Governor appoints all the Board members, the Executive Director and the Chairman of the Board. Management and financial oversight is provided by the Governor through the Secretary of Commerce and Trade and the Secretary of Finance to assure Administration policy and board guidance is carried out in a cohesive manner. As a result, the Board has, over the years, acted as an advisory board providing general policy guidance and has not been involved with the management of the Authority.

There seem to be conflicting provisions in the legislation creating the Authority and the Code of Virginia requirements for a supervisory Board. As indicated in the Management Letter, §2.2-2100 of the code states that a supervisory Board "appoints the agency director," who is "subordinate to the board." The agency director in this case is appointed by the Governor and reports to the Governor through the Secretary of Commerce and Trade. Because of this conflict, the Board is not able to influence management because the agency head is not "subordinate to the board," a requirement for being "supervisory."

We agree with the conclusion that a clarification should be sought. We will review the current legislation with the Governor's administration to seek clarification of the duties and responsibilities of the Board. A legal opinion will also be sought from the Attorney General to make clear the responsibilities of the Virginia Tourism Authority Board.

Sincerely,



Roy A. Knox, CPA  
Vice President of Administration  
and Finance



VIRGINIA TOURISM AUTHORITY

Alisa Bailey, Executive Director

Roy Knox, Vice President of Administration and Finance

TOURISM AUTHORITY BOARD

Cal Simmons, Chair

James M. Wordsworth, Vice-Chair

Ray Allen Jr.	W. Tayloe Murphy Jr.*
Trixie L. Averill	Susan K. Payne
John M. Bennett*	James B. Ricketts
William Shawn Hash	Michael J. Schewel*
Calvin D. Jamison	Brett L. Schoenfield
Martin Jones	Phyllis Terrell

Katherine B. Waddell

\*Ex-officio



